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C O N F I D E N T I A L SECTION 01 OF 03 BRUSSELS 000752

SIPDIS

DEPARTMENT FOR PRM/ANE - RWARD; E - ADERSE; EUR/ERA -  
KALLEGRONE; NEA; DEPARTMENT PLEASE PASS USAID - ANE AND DCHA

E.O. 12958: DECL: 02/20/2014

TAGS: [KPAL](#) [PREF](#) [EAID](#) [UNRWA](#) [EUN](#) [USEU](#) [BRUSSELS](#)

SUBJECT: EC FUNDING FOR UNRWA AND PALESTINIAN AUTHORITY IN  
2004: DEMARCHE RESPONSE

REF: STATE 29074

Classified By: PRMOFF Marc J. Meznar. Reasons 1.4 (b) and (d).

1. (C) Summary. The European Commission (EC), through funding mechanisms in ECHO, DG RELEX and EuropeAid, will continue to provide substantial funding for vulnerable Palestinians, as well as for the Palestinian Authority, in 2004. However, it does not have immediate plans to respond to UNRWA's emergency appeal. The EC has long advocated that UNRWA incorporate the repeated "emergency appeals" into its core budget. End Summary.

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EC Downbeat on UNRWA Emergency Appeal  
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2. (C) On 2/18, PRMAst delivered reftel demarche to Giuseppe Angelini, ECHO desk officer for UNRWA and Palestinian issues, and Christian Berger, UNRWA Aid Counselor for DG RELEX. Though there was agreement that the situation for Palestinians, specifically those in the occupied territories, has deteriorated substantially, both Berger and Angelini expressed reservations when asked to increase funding to UNRWA's emergency appeal. Angelini chided UNRWA's "emergency appeal" process and emphasized that the EC does not look upon the Palestinians as victims of an immediate, short-term crisis but rather as casualties of a long and protracted emergency. Berger noted that although ECHO's response to UNRWA's emergency appeals has declined, total funding for UNRWA had actually increased. Berger explained that for this reason the EC has reallocated significant funding for Palestinians to the MEDA II program, the principle financial instrument of the EU for the implementation of the Euro-Mediterranean Partnership, and limits its use of humanitarian and emergency accounts.

3. (C) According to Berger, a feeling of mistrust between the EC and UNRWA is growing out of this issue of non-responsiveness to the emergency appeals. Berger said the EC has repeatedly urged UNRWA to move away from emergency appeals and to incorporate these long-standing needs into the main budget. He opined that UNRWA utilizes the "sexy" programs as bait for its emergency appeals thereby undermining legitimate needs assessment by donors. According to Angelini, these funding strategies have prompted ECHO to increase funding to NGOs vis a vis funding for UNRWA.

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Support to Vulnerable Palestinians to Continue  
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4. (C) Angelini indicated that ECHO plans to provide roughly 35 million euros to assist vulnerable Palestinians in the Middle East. He added that the amount could increase, as was the case in 2002 and 2003 "when UNRWA eventually, but not as a pre-planned choice, received about one third of the euros 38 million that were finally allocated to Palestinians." He said ECHO will adopt a first funding decision near the end of April, which he estimated to total around 25 million euros, with about one third responding directly to the UN's 2004 consolidated appeal (CAP). Angelini said that the largest portion of these CAP-related funds probably will be allocated to UNRWA and WFP.

5. (C) Angelini also described ECHO's planned response of shelter needs. To address the house demolitions in Rafah, ECHO will probably make one million euros available to UNRWA. Another euros 4 million has been reserved for shelter needs, but is pending discussion with UNRWA and the results of the June Geneva Conference. Angelini emphasized that ECHO does not make allocations by agency, but instead based upon an assessment of the operational capacity of its implementing partners and therefore cannot "plan" exactly how much they "intend to contribute specifically to UNRWA this year."

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Support to the Palestinian Authority  
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6. (C) Based on information obtained during the 2/18 meeting with Berger and additional information obtained by USAID

Development Counselor on 2/19 from DG RELEX, the EU's financial support to the Palestinian Authority (PA) is currently under discussion and should be proposed within the next week. (Note. The OLAF report on alleged irregularities on the use of EC funds is due to come out in March. While the EC does not expect anything dramatic, their ability to deliver on the 2004 budget is directly related to the OLAF findings. End Note.) Funding decisions are based on a four-year cycle, with the 2002-2005 cycle nearing its end. Though there is a desire to match last year's funding amount of 80 million euros to the PA, this year's contribution may be smaller due to overall budget constraints. The EC's strong preference is to provide support through the World Bank Trust Fund but will do so only if their contributions are matched by other donors. They will be actively seeking support for matching funds from other donors, including EU Member States, Japan, Norway, Arab League, the U.S., etc.

17. (C) On the issue of disbursements from the 2003 budget support fund, the first tranche of 40 million euros has been deposited into a single Treasury account for the PA budget and is currently pending review. The EC has a certifier and an Ernst & Young auditing team to review and release payment based on satisfactory documentation. Of this first tranche, 6 million euros has been released, with the remaining euros 34 million euros under review. Both sources suggested that 20 million euros could be released shortly.

18. (C) The second tranche of 40 million euros is much more complicated; it has not yet been deposited because certain conditions must first be met. The conditions include pension contributions, external audit and understandings on the salary payments for the security services through deposit accounts. (Note. These conditions were made at the request of the PA during prior consultations with the EC. End Note.)

A meeting between PA Prime Minister for Finance Salam Fayyad and President Prodi on 2/18 helped to clarify the problems surrounding security payments. According to DG RELEX, Fayyad now has 40 percent of all security personnel receiving salary payments through deposits into their accounts. He would like to expand this to the remaining 60 percent within the next few weeks, but he is facing "fierce resistance". PM Qurei told HiRep Solana this week that the PA cabinet has taken a decision to begin all salaries under the bank transfer method, but was vague on how/when this would be implemented. The EC agreed to look at possibilities over the next few weeks. RELEX stressed that although the funds are currently unavailable, they can be used as collateral to acquire loans and pay salaries. In essence, it should not be seen as a substantial hindrance to the functioning of the PA.

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